Verizon Communications
1300 I Street NW, Suite 400W
Washington, DC 20005

February 20, 2002

Ex Parte

William Caton
Acting Secretary
Federal Communications Commission
445 12th St., S.W. – Portals
Washington, DC 20554

RE: Application by Verizon-New Jersey Inc. for Authorization To Provide In-Region, InterLATA Services in State of New Jersey, Docket No. 01-347 - **REDACTED**

Dear Mr. Caton:

As per the request of CCB staff, Verizon submits this letter in response to claims raised by certain parties in the above-referenced proceeding. Portions of this letter contain proprietary information and are subject to confidential treatment. The attachments, however, do not contain proprietary information. Accordingly, a redacted version of this letter also is being filed. The twenty-page limit does not apply as set forth in DA 01-2746.

1. CHARGES FOR VERTICAL FEATURES

AT&T contends that Verizon has attempted to recover costs associated with vertical features in both its usage-sensitive switching rates and its fixed monthly port rate. *See* AT&T Comments at 15. WorldCom argues that Verizon should be required to recover such costs through the port rate rather than the usage-sensitive switching rate. *See* WorldCom Comments at 10. But Verizon does *not* recover these costs twice, and recovery via a usage-sensitive charge is appropriate, consistent with the Board's determinations, and TELRIC-compliant.

In the 1997 *Generic Order*, the Board approved Verizon's switching rates, which included a usage-sensitive charge for vertical features. *Generic Order* at 115, 185. App. E, Tab 1. After the federal district court remanded the *Generic Order* to the Board, *see* Joint Declaration of Patrick A. Garzillo and Marsha S. Prosini ¶ 17, Verizon filed a revised switching cost study, which explained that charges for certain vertical features would be applied in usage-sensitive rates. *See* Section 1.1 of the End Office Switching Study, Ex. VNJ 26, Vol. 19 (Exh. G-1), *submitted with* Ex Parte Letter from Clint E. Odom, Verizon, to Magalie Roman Salas, Secretary, Federal Communications Commission (January 25, 2002).

Verizon's approach not only comports with the *Generic Order*, but also reflects economically proper pricing principles. First, it is not the case that Verizon "double-recovers" for vertical features because, contrary to the arguments raised by AT&T, Verizon does *not* include such costs in its port rate. As explained in the Reply Declaration of Patrick A. Garzillo and Marsha S. Prosini ¶ 12 ("Reply Declaration"), and in Verizon's briefs to the Board below, *see* App. F, Tab 3 at 117-20; App. F, Tab 4 at 107-08, Verizon's rate structure in New Jersey differs, in this respect, from its rate structure in New York and in Pennsylvania. In those states, Verizon has been *required* to include costs for vertical features in its fixed port rate. The New Jersey Board has imposed no such requirement, and Verizon -- for reasons described below -- has chosen to recover for such costs in its usage-sensitive rates instead. In part for this reason, the New Jersey port rate -- $0.73 -- is substantially lower than the full featured port rates in New York and Pennsylvania, both of which exceed $2.50. Verizon thus is not double-recovering for vertical features. Moreover, because charges for vertical features are not now included in the New Jersey port rate, if the recovery for vertical features were removed from the switching usage rates, the result would be a substantial *increase* in that port rate.

Second, it is appropriate to include costs for vertical features in usage-sensitive rates, rather than in the fixed port rate. While *some* costs related to vertical features are fixed in nature -- for example, those associated with certain necessary hardware -- the majority of such costs are usage-sensitive. Most vertical features, when used, utilize switch capacity. For example, when a user who is using the telephone receives a "call waiting" signal indicating another incoming call, a Verizon switch must allot resources to sending that signal. Of course, the number of times that a user will receive such a signal (and that Verizon therefore will incur such a cost) is a function of how frequently the user is on the line. That is, the more time the end-user spends on the telephone, the more frequently incoming calls will result in activation of call waiting, and the more frequently that vertical feature will require use of switching capacity. Thus, WorldCom's contention that the costs associated with vertical features are incurred in a fixed manner and therefore should be recouped through a fixed port charge is simply wrong.

Verizon's practice of charging for vertical features in New Jersey through usage-sensitive rates is therefore appropriate and TELRIC-compliant.

2. BUSY HOUR ANNUALIZATION

WorldCom argues that Verizon has used an improper methodology to derive the number of switching minutes over which it will spread switching charges. *See* WorldCom Comments at 9. WorldCom's argument is without merit.

This issue was not addressed in the Board's 1997 *Generic Order*. The switching cost study that Verizon filed in July, 2000, in the recently concluded UNE proceeding, explained that the company had used a busy-hour-to-day ratio ("BHDR") based on a Verizon usage study, and that "[e]quivalent business days, 251, [we]re used as a divisor against the Busy Hour to Day Ratio to calculate the Busy Hour to Annual Ratio." *See* Section 4.4 of the End Office Switching Study, Exh. VNJ 26, Vol. 19 (Exh. G-1), *submitted with* Ex Parte Letter from Clint E. Odom, Verizon, to Magalie Roman Salas, Secretary, Federal Communications Commission (January 25,

2002). There was limited testimony on the issue below, from WorldCom witness August H. Ankum, who testified that Verizon's approach "ignores switch usage in weekend days to recover switching costs." *See* Attachment 1 (Excerpts of Rebuttal Testimony of Dr. August H. Ankum on Behalf of WorldCom, Inc. (filed October 12, 2000) at 49, 55-57). But when Dr. Ankum was cross-examined regarding this issue on February 5, 2001, he acknowledged that in a previous proceeding, he himself had sponsored cost studies in which he advocated exclusion of weekends for the purpose of calculating the busy-hour-to-annual ratio ("BHAR"). *See* Attachment 2 (Excerpt from Hearing Transcript, February 5, 2001, at 3393-97). Moreover, during the New Jersey proceeding, AT&T -- like Verizon -- sponsored a model that assumed the use of 251 days for calculation of the BHAR. *See* Reply Declaration ¶ 15.

Verizon's approach is appropriate and TELRIC-compliant, and *does not* -- contrary to WorldCom's suggestion -- result in disregard for usage during weekends and holidays. Verizon develops switching costs by first sizing the switch to accommodate traffic in the busy hour and then determining the investment required for each busy hour minute. That investment must be spread over all minutes. In order properly to spread this investment, Verizon develops a busy-hour-to-annual ratio. In many cases -- particularly where calls are not billed in a usage-sensitive fashion or are not billable at all (such as when a call is not completed because the recipient's line is busy or because the recipient does not pick up the phone) -- Verizon does not maintain records of specific annual usage per switch. Thus, Verizon must estimate the total number of minutes per year during which the switch is used. To derive its estimate, Verizon first records the number of minutes for which the switch is used in the busiest hour of a business day during a "busy" month (for example, in the case of a switch serving business lines, a month in which workers typically use little or no vacation time). Verizon then calculates a BHDR, which represents the proportion of that day's traffic that is accounted for by the busy hour. Because the hour in question is, by definition, the busiest of the day, that ratio will fall somewhere above 0.042, or 1/24. Verizon then divides the BHDR by a given number of days to determine the BHAR, which represents the proportion of the entire year's traffic that is represented by the busy hour. Finally, Verizon will multiply the busy hour per-minute investment by the BHAR to derive the investment required per minute.

WorldCom suggests that Verizon has somehow failed to account for weekends and holidays by using 251 as the number of days over which to divide the BHDR to compute the BHAR. This is not the case. If "busy hour" usage equaled the usage in an average hour during an *average* day, Verizon could, in theory, divide the BHDR by 365 to determine annual usage. But of course, that is not the case; the busy hour represents the *busiest* hour of a *business* day during a particularly *busy* month. In other words, this is the point of *highest* -- not *average* -- usage. Use of a 365-day figure thus would substantially overstate the number of minutes over which Verizon will be able to recover switching-related costs and would result in under-recovery. The same holds for the 308-day figure advocated by WorldCom here.

Indeed, it is worth mentioning that the figures advocated by AT&T and WorldCom in the current Virginia UNE proceeding, if plugged into the analysis here, would result in a higher BHAR, and thus in higher costs, than Verizon's figures. The Modified Synthesis Model, which AT&T and WorldCom have supported in the Virginia TELRIC proceeding and elsewhere,

assumes that the BHDR is 0.100; indeed, this figure has been characterized by AT&T and WorldCom witnesses as an industry standard. But if AT&T and WorldCom were to divide their 0.100 BHDR by 270 days, the result would be a 0.000370 BHAR. This figure is *higher* than the 0.000297 figure that results from dividing Verizon's 0.0747 BHDR (which is derived from Verizon's actual experience) by 251 days. That is, Verizon's figures result in *lower* per-minute costs than those that would be derived through consistent application of the long-distance incumbents' own figures.

Thus, Verizon's approach to distributing switch investments among all minutes of use appropriately estimates total annual minutes and is TELRIC compliant. *See generally* App. F, Tab 3 at 116-17 (Verizon Initial Brief); App. F, Tab 4 at 107 (Verizon Reply Brief). Moreover, Verizon's methodology ultimately arrives at *lower* per-minute costs than those that would be derived through application of WorldCom's proposed BHDR spread over 270 days.

3. SWITCHING CHARGES FOR INTRA-SWITCH CALLS

WorldCom, ATX, and the Ratepayer Advocate ("RPA") claim that Verizon has "improperly charged two minutes of the 'per Minute of Use' switching rate for each minute of an intra-switch call." RPA Comments at 24; *see also* WorldCom Comments at 12; ATX Comments at 9. As noted in the *Reply Declaration*, this issue is currently before the Board as a result of WorldCom' request for a supplemental ruling. *See Reply Declaration* ¶ 9. And as explained in that proceeding, application of both originating and terminating charges on these calls is appropriate.

As an initial matter, this issue was not addressed in the Board's 1997 *Generic Order*, and was not raised -- either in testimony or in the parties' briefs -- in the Board's subsequent UNE proceeding, Docket No. TO0060356. The Board's December 17, 2001 *Summary Order* approved Verizon's model, with alterations, but did not in any way repudiate Verizon's rate structure for intra-switch calls. *See* Summary Order of Approval, Dkt. No. TO00060356 at 4 (Dec. 17, 2001), App. F, Tab 9.

More fundamentally, as described in the *Reply Declaration*, applying both originating and terminating local switching charges to intra-switch calls is entirely appropriate because two separate functions are performed in both intra-switch and inter-switch calls. That is, every call involves the same "originating" and "terminating" switching activities -- which are two separate functions for which separate costs and rates are developed, irrespective of how many switches are involved.[1] That is, the activities for which end-office switching charges recover Verizon's costs -- originating end-office switching and terminating end-office switching -- are the same whether or not a call transits multiple switches; it therefore is appropriate to apply the same end-

[1] To be sure, inter-switch calls also involve *other* costs that are not associated with intra-switch calls, including the costs associated with carriage between one switch and another. But these costs are accounted for by separate trunk port charges that are only applied to *inter*-switch calls, and that do not apply to the *intra*-switch calls at issue here.

office switching charges whether the call involves one switch or multiple switches. *See also Reply Declaration* ¶ 10.

That is why Verizon has divided (and the Board has approved) switching-related charges into separate "originating" and "terminating" components. This is the most sensible approach from a rate structure perspective. In theory, Verizon could apply *all* switching charges to either the originating end or the terminating end of a call. But that structure could give rise to distortions, because there are calls that do not travel solely on Verizon's network -- for example, calls that are passed from Verizon to an inter-exchange carrier ("IXC"), or from an IXC to Verizon. In those cases, Verizon generally will apply only an originating switching charge *or* a terminating switching charge because it is performing only one of those functions. Thus, if all switching charges were lumped into either originating or terminating minutes, Verizon would either over-recover or under-recover switching-related costs for calls that travel to or from another network. In any event, unlike calls handed off to IXCs, the intra-switch calls at issue here both originate and terminate on Verizon's network, and Verizon therefore must perform both the originating and terminating switching functions; Verizon is thus entitled to recover the cost of performing both functions.

Because Verizon divides switching costs between "originating" and "terminating" minutes, and because those costs do *not* vary based on how many switches are involved in a given call, application of "originating" and "terminating" end office switching charges is appropriate for intra-switch calls and inter-switch calls alike. *See also Reply Declaration* ¶ 10. Moreover, this approach is TELRIC-compliant, as the Commission implicitly recognized in approving Verizon's long-distance application for other states -- such as Pennsylvania -- where Verizon employs the same rate structure. *See* Consultative Report of the Pennsylvania Public Utility Commission, *Application of Verizon Pennsylvania, Inc., et al., for Authorization Under Section 271 of the Communications Act to Provide In-Region, InterLATA Service in the Commonwealth of Pennsylvania*, CC Dkt. No. 01-138 at 179 (June 25, 2001) ("[W]e find that [WorldCom's] claim of Verizon PA double billing for an intra-switch call does not warrant a conclusion that Verizon PA has failed to comply with [Checklist Item 2]. Verizon PA has offered evidence in the form of a cost study which verifies its billing strategy."); *Pennsylvania Order* at 11 (deeming Verizon compliant with Checklist Item 2 in Pennsylvania).

4. HOTCUT CHARGES

Several parties have complained about Verizon's non-recurring charges for hotcuts. *See, e.g.*, AT&T Comments at 2-3, 12; Conversent Comments at 2; Cavalier Comments at 3-5. However, as explained in detail in the *Reply Declaration*, the Rebuttal Testimony filed by Bruce Meacham in the TELRIC proceeding, and Verizon's briefs to the Board in that docket (which are part of the record here), the existing non-recurring charges for hotcuts in New Jersey are justified by the extensive work that is required to provision the hotcut -- work that has, in many cases, been undertaken as part of the hotcut process at the request of the CLECs. *See Reply Declaration* ¶¶ 16-28; Attachment 3 at 15-23 (Excerpts of Rebuttal Testimony of Bruce Meacham on Behalf of Verizon NH Inc., *In the Matter of the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic-New Jersey, Inc.*, Dkt. No.

TO00060356 (filed October 12, 2000)); App. F, Tab 3 at 153-44, 158-60 (Verizon Initial Brief); App. F, Tab 4 at 118-24 (Verizon Reply Brief).

At the time of the initial filing in the Generic proceeding, Verizon had little or no experience in performing hotcuts. Given the lack of experience at the time, in its *Generic Order*, the Board initially determined that "minimal effort" was required to perform a coordinated cutover (what is now referred to as a "hotcut"), *Generic Order* at 113, and permitted carriers to charge only for service ordering and installation. The Board noted, however, that "[s]hould actual experience with cut-overs demonstrate that costs are higher than envisioned by the Board, ... the Board will reexamine its analysis." *Id.* The cost studies Verizon submitted during the recent TELRIC proceeding -- almost four years after filing its studies in the Generic proceeding -- reflected the company's "actual experience" in the intervening period, and therefore included non-recurring costs for the provision of 2-wire initial hotcuts. Those costs were $166.86 for a hotcut that did not require a premises visit, and an additional $108.55 field installation charge where a premises visit was necessary.

As described in the *Reply Declaration*, *see Reply Declaration* ¶ 19, and in Mr. Meacham's testimony, many of the tasks performed to provision a hotcut are the result of specific requests from CLECs. As Mr. Meacham testified, "AT&T has specifically requested and receives: (1) daily inputs to a line-up sheet to be transmitted via electronic mail, listing the telephone number, RCCC technician name and comments or status for every order in the pipeline; (2) 'Port outs' or Local Number Portability (LNP) to be scheduled out-of-hours, at night, and on weekends; (3) an RCCC technician on stand-by while CLEC switch translations are programmed to correct cases where there is no CLEC dial tone. Such cases also require CO/frame and Outside Plant technician to remain in a standby mode for unspecified lengths of time to test for CLEC dial tone." Attachment 3 at 18-19. CLECs have requested extensive procedures in forums such as the New York Section 271 collaborative meetings precisely because CLEC errors otherwise might result in service interruptions for end users. The procedures that result in the costs about which the CLECs now complain, therefore, have been put in place to respond to *CLEC* requests resulting from flaws in *their own* practices.

In his rebuttal testimony, Verizon witness Bruce Meacham described in detail some of the complex procedures that gave rise to hotcut costs. At the New Jersey hearings, no party cross-examined Mr. Meacham regarding hotcuts, coordination, or the associated costs. As Mr. Meacham testified, the provision of hotcuts requires coordination among many different Verizon workgroups and between Verizon and the ordering CLEC. The Regional CLEC Coordination Center ("RCCC"), which governs this coordination, must "interact with the TISOC, CPC, Recent Change Memory Administration Change Center ('RCMAC'), Mechanized Loop Administration Center ('MLAC'), Central Office Frame, Field Installation, and the CLEC directly." Attachment 3 at 18. As a consequence of this coordination, "[o]nce the CLEC order is confirmed, the CLEC only needs to contact the RCCC coordinator handling the particular service order to obtain all the assistance it needs in provisioning instead of having to coordinate all its work efforts with multiple work centers within Verizon." *Id.* The RCCC also "handles CLEC requests for expedites, postponements, and cancellations. Often these requests arrive with little notice, requiring the RCCC coordinator to scramble to avert a service interruption. This means

contacting (both by telephone and electronically) all personnel who are teed-up to perform the cutover." *Id.* at 17. Mr. Meacham proceeded to describe, in detail, many of the particular tasks required to perform a hotcut. *See id.* at 19-23. Again, Mr. Meacham was not cross-examined with respect to non-recurring hotcut costs or the associated coordination costs.

Even accounting for the above, the costs for hotcut loops are lower in New Jersey than elsewhere, over the life of a UNE. As described more fully in the *Reply Declaration*, the recurring and non-recurring costs for a loop provisioned via hotcut are lower over a three-year UNE life in New Jersey than in New York (whether one looks to the recent Public Service Commission order or at the costs that preceded that decision) or Massachusetts, and about the same as in Pennsylvania. Current rates for a hotcut loop are also lower now, over a three-year life, than they were under the previous New Jersey rates. Over a five-year UNE life -- the life adopted by the New Jersey Board, *see* November 20, 2001 Letter from Henry M. Ogden to Bruce D. Cohen, Esq., App. F, Tab 6 -- current New Jersey costs are lower than costs in any of these other scenarios. *See Reply Declaration* ¶ 28.

Moreover, the non-recurring charges that are now in place are also lower than those that Verizon proposed at the outset of the New Jersey UNE proceeding. Verizon had proposed total $166.86 non-recurring charge for initial 2-wire hotcuts (this total charge accounted for costs associated with the Service Order, CO Wiring, and Provisioning). For orders that required a premises visit, Verizon proposed an additional $108.55 field installation charge. As demonstrated in Verizon's compliance filing, application of the Board's modifications to Verizon's non-recurring cost model has resulted in a total initial 2-wire hotcut non-recurring charge of $159.76 when a premises visit is not required ($7.10 less than what Verizon had proposed) and $233.12 when a visit *is* required ($42.29 less than what Verizon had proposed).

Thus, the Board clearly considered Verizon's non-recurring hotcut charges, and reduced them, along with Verizon's other non-recurring charges. The resulting rates are TELRIC-compliant, and, when considered in conjunction with recurring loop rates, are in fact lower than rates in other section 271-approved states.

5. BENCHMARK ANALYSIS

As Verizon noted at the February 12, 2001 meeting, reference to the Commission's section 271 benchmark analysis is not necessary in the case of New Jersey, because prices there were set in an extensive TELRIC proceeding. At the close of that proceeding, the Board set rates that it found complied with TELRIC, and that in fact either do comply with TELRIC or fall *below* the rates that application of TELRIC would produce. Nonetheless, Verizon's New Jersey rates would satisfy a benchmark analysis against the newly enacted New York rates, as demonstrated in the charts below. The non-loop rates presented in the second chart assume state-specific DEM usage, consistent with the FCC's determination that such figures, which are "publicly available," are appropriate for benchmarking purposes. *See Arkansas/Missouri Order* ¶ 60 n.161. Specifically, we have assumed the use of ******** minutes in New York and **** **** minutes in New Jersey.

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Please let me know if you have any questions.

Sincerely,

Clint E. Odom/HB

Clint E. Odom

Attachments

cc: A. Johns
S. Pie

Attachment 1

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE BOARD'S REVIEW OF UNBUNDLED NETWORK ELEMENTS RATES, TERMS AND CONDITIONS OF BELL ATLANTIC-NEW JERSEY, INC.	Docket No. TO00060356

REBUTTAL TESTIMONY OF DR. AUGUST H. ANKUM
ON BEHALF OF
WORLDCOM, INC

October 12, 2000

PUBLIC VERSION

In particular, it means that the firm's equipment is optimized to serve the long run level of demand at the ***highest possible utilization rate.*** (Direct testimony, page 29.) (Emphasis added.)[11]

Here, I fully agree with Dr. Taylor.

VII. SWITCHING COST STUDIES

Q. HAVE YOU REVIEWED VNJ'S SWITCHING COST STUDIES?

A. Yes. I have read the affidavit's on the various switch cost studies and I have reviewed the associated workpapers. The cost studies suffer from a number of errors. They are the following:

-- VNJ inappropriately uses the lower growth discounts instead of the significantly larger cutover discounts received for new switches. As a result, switch investments are significantly overstated.

-- VNJ applies growth discounts to portions of the switch that are not subject to growth.

-- VNJ inappropriately ignores switch usage in weekend days to recover switching costs. It uses only **[PROPRIETARY]** XXX **[PROPRIETARY]** days out of the year to recover switching costs, as opposed to 308 days, a number that recognizes the weekends.

-- VNJ uses an inappropriately low fill factor on its processor.

-- VNJ uses outdated switch technology, instead of the more advanced SM2000 switch module.

[11] Proceeding to examine reciprocal compensation to section 252 of the Federal Telecommunications Act, TPUC Docket No. 21982. March, 2000.

Thus, the court found that the PSC of Delaware was correct in applying the larger cut-over discounts.

Q. HAS THE FCC ALSO RECOGNIZED THAT THE CUTOVER LINE PRICES SHOULD BE USED IN THE ILEC'S FORWARD-LOOKING ECONOMIC COST STUDIES?

A. Yes. The FCC found the following:

> the suggestions of ***Ameritech***, Bell Atlantic, BellSouth, GTE, and Sprint that the costs associated with purchasing and installing switching equipment upgrades should be included in our cost estimates. The model platform we adopted is intended to use the most cost-effective, forward-looking technology available at a particular period in time. ***The installation costs of switches estimated above reflect the most cost-effective forward-looking technology*** for meeting industry performance requirements. Switches, augmented by upgrades, may provide carriers the ability to provide supported services, but do so at greater costs. Therefore, such augmented switches do not constitute cost-effective forward-looking technology." (FCC Docket No. 99-304, para. 317) (Emphasis added.)

Average Business Days to recover costs.

Q. PLEASE EXPLAIN WHY THE AVERAGE BUSINESS DAY CALCULATION IS IMPORTANT.

et al., Defendants. No. 97-511-SLR, 97-616-SLR. United States District Court, D. Delaware. Jan. 6, 2000.

A. The Average Business Days calculation plays an important role in the switching cost studies as well as the common transport and unbundled common transport studies. The number of Average Business Days determines the number of MOUs over which switch and switch related investments will be recovered. In a sense, the more Average Business Days there are, the larges will be the number of MOUs over which investments will be recovered and the lower will be the per MOU costs.

The idea is that not all days in the week have the same amount of traffic. Obviously, traffic volumes during weekdays are greater than during weekend days. For that reason it would not be appropriate to recover switch investments over all the 525,600 minutes in a year (365 x 24 x 60). Rather, to calculate the appropriate number of MOUs in a year, cost analysts determine the number of MOUs in a business days and then determine how many business equivalent days there are in a year.

Q. WHAT NUMBER OF AVERAGE BUSINESS DAYS HAS VNJ USED?

A. VNJ has determined that there are only **[PROPRIETARY]** XXX **[PROPRIETARY]** Average Business Days. This is wrong. VNJ's choice implies that there is no calling at all during the weekend.

While traffic drops-off during the weekend, there is still significant calling so that these minutes – like the minutes during the week – can help to recover switch investments.

Q. IS IT STANDARD TO USE 308 OR MORE DAYS OVER WHICH TO RECOVER SWITCH INVESTMENTS?

A. Yes. Though the switch cost studies are typically proprietary and so I cannot divulge specific information from other states, I can state that I have not encountered VNJ's practice in studies in other regions. That is, even though SCIS – the model used by VNJ – is widely used throughout the country, I have not seen the use of only **[PROPRIETARY]** XXX **[PROPRIETARY]** business days in other studies in other states. To be sure, other companies seek to recover switch investments over more days than proprosed by VNJ here.

Q. WHAT IS YOUR RECOMMENDATION?

A. I very conservatively recommend that weekend days should count for half a business day: that is, I assert that calling volumes in the weekend are half of what they are during the week. The corrected calculation, therefore, should use 308 days a year to recover switch related investments.

VOLUME 16

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

NEWARK, NEW JERSEY MONDAY, FEB. 5, 2001

IN THE MATTER OF THE BOARD'S REVIEW OF THE UNBUNDLED NETWORK ELEMENT RATES, TERMS AND CONDITIONS OF VERIZON-NEW JERSEY, INC.	:	DOCKET NO. TO-00060356

B E F O R E: COMMISSIONER FREDERICK F. BUTLER

A P P E A R A N C E S:

On behalf of Verizon-New Jersey, Inc., appear:

WILENTZ, GOLDMAN & SPITZER, ESQS.
BY: HESSER G. MC BRIDE, JR., ESQ.
FREDERICK J. DENNEHY, ESQ.
90 Woodbridge Center Drive
Woodbridge, New Jersey 07095

BARRY S. ABRAMS, ESQ.
540 Broad Street
Newark, New Jersey 07101

On behalf of the Division of the Ratepayer Advocate, appears:

CHRISTOPHER WHITE, ESQ.
31 Clinton Street 11TH Floor
P.O. Box 46005
Newark, New Jersey 07101

MR. PROVOST: Mr. Mc Bride, are we out of the - - are we finished with the proprietary exhibit?

MR. MC BRIDE: Yes, we are finished.

MR. PROVOST: So this is not proprietary information?

MR. MC BRIDE: Correct.

Q And do you know how many business holidays there are in a particular year in general?

A I don't recall. I presume you have the number there. So . . . but the answer is no, I don't recall. I could probably calculate it for you, but by

taking the

differential between - -

Q Would you accept it's approximately ten?

A That sounds about right. I think everybody wants it to be more, but I think it's about ten.

Q Now, you've - - in your testimony you say you haven't seen any company use 251 days as the average busy days.

Is that correct?

A Yes.

By the way, can you tell me what page we're on at this point?

Q Sure, why don't we go to page 56.

A Yes.

Q And, in fact, I am sorry, if you turn to page 57, now on page 57, you say it's standard to use 308 or more days?

A Yes.

Q So you have more days to recover switch investments?

A Yes, 328 I believe is standard.

Q Okay. 328 is higher, okay.

Now, in other words, that's the 308 or higher is usually what is recommended in developing switch costs, is that right?

A Yes.

Q Now, have you ever seen numbers less than 308 proposed?

A Only Verizon-New York, I believe, has a number lower than 308.

Q Have you seen, based upon your experience in other jurisdictions, have you seen

a number lower than 308 proposed?

A No. And the reason is obvious that their number is used in the model to reflect over how many days you can recover your investment. And there is traffic in the weekends and on holidays and to ignore that, you could draw reference from that.

Q So it would be inappropriate to exclude the weekends?

A Yes, and the holidays.

Q Okay.

MR. MC BRIDE: And Commissioner,

I would like to have marked as Exhibit VNJ-79 an excerpt of the testimony of Dr. August H. Ankum on behalf of Tailor Communications Group dated March 31st, 2000 for the Public Utility Commission of Texas, docket number 21982.

COMMISSIONER BUTLER: Hearing no objection, that is so ordered.

(Whereupon, Excerpt of Testimony in the Matter of Proceeding to Examine Reciprocal Compensation Pursuant to

Section 252 of the Federal Communications Act of 1996 is received and marked VNJ-79 for Identification.)

Q Dr. Ankum, if I could just direct your attention to the last page and for Counsel's sake, I have a copy of the transcript.

Dr. Ankum, do you recall testifying in that proceeding?

A Yes.

Q And now, could you -- if you could turn to Page 32, you see the first question says, "What

traffic assumptions should be used in NCAM for Taylor Communications?" Do you see that?

A Yes.

Q And then it says the correct traffic data that should be entered into NCAM should be consistent with the following business equivalent days of 261 (365 minus 104 week-end days). Is that correct? Now is it correct?

A I'm just refreshing myself to the context here. This has been about a year ago, so if you just allow me to refresh myself on the NCAM. This is a --

Q Sure.

A --- there were two Taylors in this case: Dr. Taylor who was a consultant, I believe, and then there is the Taylor

Communications, which is the telephone company down in Texas, which made for some interesting confusion.

Q If I wasn't clear in my reference, I am referring to Page 32, the first full question and what I had read is the beginning of the answer and then I

Attachment 3

STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE BOARD'S REVIEW OF UNBUNDLED NETWORK ELEMENTS RATES, TERMS AND CONDITIONS OF BELL ATLANTIC-NEW JERSEY, INC.	Docket No. TO00060356

REBUTTAL TESTIMONY OF BRUCE MEACHAM

ON BEHALF OF VERIZON NEW JERSEY INC.

OCTOBER 12, 2000

PUBLIC VERSION

evidence that Verizon NJ's OSS are outdated or inefficient. Indeed, although the AT&T NRCM utilizes essentially, without explanation the ***same*** OSS that Verizon NJ utilizes, it assumes that 2% of the orders "fall out" and cannot be processed mechanically. It is contrary to both logic and experience to assume that provisioning activities such as design, assignment and dispatch virtually always occur automatically, without some planned human intervention. Such intervention is not the result of error but rather is intended; it has nothing to do with the degree of sophistication of the OSS. Mr. Walsh misuses the term "fallout" and accordingly fails to account for the manual work effort necessary to process orders.

In addition, while it is true that technological advancements such as digital switching and fiber deployment have resulted in significant efficiencies to Verizon NJ's network, these efficiencies do not translate to "little-or-no manual intervention." Because technological change is generally associated with new capital equipment, the resulting cost savings can be seen to a much greater degree in the recurring costs for unbundled elements than in the non-recurring costs. The non-recurring costs associated with provisioning UNEs are based on physical work activities that will continue to be required even with a technologically advanced network architecture.

a) The AT&T NRCM ignores activities performed by the RCCC.

Q. Are the activities performed by Verizon NJ's RCC necessary to provision UNEs?

A. Yes. The work performed in the RCCC is necessary and will continue to be necessary for the transfer of working loops (hot cuts) from ILEC to CLEC and for

CLEC to CLEC loop transfers. Because the CLECs demand (on behalf of their customers) that Verizon NJ be prepared to provision UNEs on a specific date and within a specific time interval in order to minimize end user service disruption, the work the RCCC does is essential. The Verizon NJ NRCM recognizes that the RCCC will continue to be necessary to provision network elements into the future.

Q. What coordination activities are performed by the RCCC?

A. The RCCC assigns service order requests from the TISOC to various RCCC coordinators. The RCCC coordinators receive and analyze the service order requests, and then contact the CLEC to review the service order request with the CLEC representative. Together, the RCCC coordinators and the CLEC representative confirm the date and time of the service order request, the substance of the service order request, the type of facilities to be provided, and any special requirements associated with the service order request. For example, if the migrating end-user is currently served by integrated digital loop carrier ("IDLC") facilities, the RCCC coordinator will inform the CLEC representative of the need to transfer the facilities from one type to another (integrated DLC to copper or universal DLC). The RCCC coordinator loads the frame work (which includes cross connects and dial tone check), loads the RCMAC work (switch translations), and loads for technician dispatch if

necessary.[11] The RCCC notifies the CLEC of completion of Line and Station Transfers, and performs the coordination for IDLC/Copper Hotcuts.

Q. What other coordination activities are performed by the RCCC?

A. The RCCC coordinator handles CLEC requests for expedites, postponements, and cancellations. Often these requests arrive with little notice, requiring the RCCC coordinator to scramble to avert a service interruption. This means contacting (both by telephone and electronically) all personnel who are teed-up to perform the cutover. The RCCC coordinator also verifies proactively that all OSS -- including the Service Order Processor ("SOP"), Work Force Administration /Dispatch Out("WFA/DO") and Work Force Administration/Control ("WFA/C") -- are updated appropriately so that Verizon NJ can respond efficiently to the CLECs' UNE requests. The RCCC coordinator documents and logs each work step in WFA/C. This permits any other RCCC coordinator to step in and assist a CLEC if necessary with respect to any particular service order request. RCCC personnel also act as the single point of contact for the CLEC to coordinate provisioning work with all the work groups as necessary. When the UNE has been provisioned, the RCCC coordinator verifies that the CLEC is satisfied, and then completes the order in the OSS.

Q. What work groups interact with the RCCC coordinators?

[11] "Loading" in this context means the RCCC coordinator arranges for the resources required to perform the necessary work to be scheduled and the work queued for the appropriate time.

A. The RCCC coordinators interact with the TISOC, CPC, Recent Change Memory Administration Change Center ("RCMAC"), Mechanized Loop Administration Center ("MLAC"), Central Office Frame, Field Installation, and the CLEC directly. Once the CLEC order is confirmed, the CLEC only needs to contact the RCCC coordinator handling the particular service order to obtain all the assistance it needs in provisioning instead of having to coordinate all its work efforts with multiple work centers within Verizon.

Q. Does AT&T fail to recognize activities performed in the RCCC on AT&T's behalf?

A. Yes. A detailed review of the RCCC activities included in the Verizon NJ NRCM, but omitted from AT&T's, indicates that many of them are directly requested or required by AT&T. In some instances, these procedures are tailored specifically to AT&T requirements and are, in fact "above and beyond" standard procedures for unbundled operations established and agreed upon at CLEC/Verizon user group forums. These "tailored" AT&T requirements - - which are ignored in AT&T's cost study - - involve neworders, "hot cut," and line orders.

Q. What detailed activities has AT&T specifically requested that Verizon's RCCC perform for it?

A. AT&T has specifically requested and receives: (1) daily inputs to a line-up sheet to be transmitted via electronic mail, listing the telephone number, RCCC technician name and comments or status for every order in the pipeline; (2) "Port outs" or Local Number Portability (LNP) to be scheduled out-of-hours, at night, and on weekends; (3) an RCCC technician on stand-by while CLEC switch translations are programmed to correct cases where there is no CLEC dial tone.

Such cases also require CO/frame and Outside Plant technician to remain in a standby mode for unspecified lengths of time to test for CLEC dial tone.

Q. What detailed activities are required in the RCCC for new order activity #16: Technician notifies CLEC of line/circuit completion?

A. Each of the following detailed activities are required:

1. CLECs require daily notification of all new orders completed on that date. The RCCC must E-mail, FAX or telephone the CLECs with this completion information data on a daily basis.

2. CLECs must also receive specific demarcation point information for POTS loops where there is an outside dispatch. The Field Installation technician documents all pertinent information in operational support systems. Then the RCCC technician extracts the information from the system and inputs the data into a spreadsheet. The spreadsheet is sent to the CLEC via E-mail.

Q. What detailed activities are required in the RCCC for new order Activity #10: Technician removes any facility roadblocks/problems?

A. Each of the following detailed activities are required:

1. CLECs must receive notification of possible missed due dates if facilities are not in place to complete the order. This is done no matter what the origin of the facility problem happens to be.

2. In addition, for new facility orders, the CLECs require a telephone number to call anytime (Monday to Friday, 8:00 a.m. to 8:00 p.m.) to obtain the status of an order. This is a toll free number assigned directly to an RCCC technician. This requirement stems from poor internal coordination (acknowledged by

CLECs) between CLEC work groups, where one group does not share information/status with other work groups. Therefore, the RCCC must have a technician available to provide order status on demand to any and all CLEC work groups. This even happens in situations where the CLEC has already been informed that an order is complete.

3. If there is a problem (e.g., defective cable) at the turn up of a new facility, the CLEC is notified of an order in jeopardy of missing a due date. The CLEC is also given an estimated completion date for the order. Ordinarily, the RCCC would resolve the problem internally and notify the CLEC of work completion without providing an interim status update.

Q. What detailed activity is required in the RCCC for new order activity #35: If no access on line: Technician enters JEP/MFC in WFA/C & reschedules upon receipt of firm DD change?

A. The following detailed activity is required:

The CLECs are responsible for scheduling access to the customer's premises when work must be done for new facilities. If the Verizon technician arrives at the premises and access is not available, the CLEC requires a status update on re-scheduled dates and any subsequent dispatch dates. Normally, the RCCC would not provide interim status updates when access is missed.

Q. What detailed activities are required in the RCCC for "new" or "hot cut" Activity #3: Screener eliminates roadblocks from the order?

A. The following detailed activity is required:

In some instances, the CLECs order the wrong product. For example, the loop may require ground start, but the CLEC orders regular POTS. The RCCC must contact the CLEC to correct the order. The Screener eliminates roadblocks from the order.

Q. What detailed activity is required in the RCCC for "new designed loop" Activity #12: Technician contacts frame to make change?

A. The following detailed activity is required:

When CLECs postpone designed orders, total rework of the order may result and require re-coordination by technicians in the RCCC. CLECs postpone many of their orders. When this occurs, the RCCC must rework the coordinated effort already arranged with workgroups in the Central Office, RCMAC, Outside Plant, etc.

Q. What detailed activity is required in the RCCC for "hot cut LOOP" Activity #18: Technician contacts CLEC to verify activity?

A. The following detailed activity is required:

For hot cut loops, the CLECs require a "verification" phone call four days prior to the due date to review the order with a CLEC representative. On this call, the CLECs must be informed of the facility type being used for the order in order to program CLEC dial tone correctly. CLECs also require the name and telephone number of the RCCC technician working the order.

Q. What detailed activity is required in the RCCC for "hot cut loop" Activity #21: Technician contacts CLEC and informs of NDT; resends a WFA/C ticket

(NDSUP) to the frame when the problem is cleared. (If problem is not resolved, DD change is initiated.)?

A. The following detailed activity is required:

If the installation technician finds that there is no CLEC dial tone during the provisioning process, the RCCC technician calls the CLEC to inform them of the problem. The CLEC may require multiple re-tests and checks until dial tone is available at their switch facility. This is additional time and expense caused by a CLEC based facility problem.

Q. What detailed activity is required in the RCCC for "hot cut loop" activity #23: On DD, technician contacts CLEC for final authorization to proceed?

A. The following detailed activity is required:

CLECs require a last minute call from the RCCC before completing a hot cut loop. The RCCC must coordinate this call and the subsequent activity to complete the order.

Q. What detailed activity is required in the RCCC for Activity "hot cut loop" #37: Restorals and Service interruptions: Technician handles all Restoral requests?

A. There are occasions when CLECs request "throw-backs." The CLEC may mistakenly order 3 lines when the end-user customer required 4 lines in a group. To change to 4 lines, the 3 lines must be "thrown-back" to their original state, a new order for 4 lines must be reissued, and the subsequent 4 line order re-coordinated in the RCCC.

Q. What detailed activities has AT&T specifically requested that the RCCC perform?

A. Each of the following detailed activities have been requested:

1. Daily inputs to a line-up sheet to be transmitted via electronic mail listing the telephone number, RCCC technician name and comments or status for every order in the pipeline.

2. "Port outs" (LNP) are to be scheduled out-of-hours, at night, and on weekends.

3. The RCCC technician must be on stand-by while CLEC switch translations are programmed to correct cases of no CLEC dial tone. This also requires CO/Frame and Outside Plant technicians to remain in a standby mode for unspecified lengths of time to test for CLEC dial tone.

Q. What additional factors contribute to the true value of the work currently performed by the RCCC?

A. While AT&T would like not to pay for the RCCC's work, it certainly has no problem using its work and resources to advantage. The axiom "you get what you pay for" also means you should pay for what you get, as much as AT&T would like to avoid doing so.

b) The AT&T NRCM fails to include sufficient design time.

Q. Do you agree with Mr. Walsh's statement that "CLEC service orders that represent pots-type services should be treated as non-designed processes, consistent with way the ILEC would provision these requests for itself." For example, an unbundled 2-wire analog loop can and should be provisioned in a non-designed process"? [Walsh Direct, p. 10]

A. Yes, and that is exactly what Verizon NJ has reflected in its NRCM. Certain services require design, however, and even though the AT&T NRCM